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Weekly Commentary

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Retail sales strong, but for how long?

As Federal Reserve officials returned to public comments last week, inflation is on their minds. US consumers appear to be less concerned. US retail sales in August surprised by growing 1.2% month-over-month (m/m) from July. The street estimated a growth rate of 0.8%. The most eye-catching number was the 1.4% m/m gain in the control group, which strips out food services, gas stations, auto dealers and building materials. The consensus view was just 0.5%. For comparison, July saw a *decline* of 0.4% m/m.

The strong results may be short-lived. For one, oil prices have risen and could move higher. Gasoline hit $4.49 per gallon Friday, just off May's record high of $4.56. For another, the Fed just raised rates and is likely to do so again at least once before year-end. In speeches last week, Fed Governor Michael Barr and Philadelphia Fed President Anna Paulson — both voting members — said just that. Less money in the bank, especially for variable-rate loans and mortgages, and in the pocket usually means fewer purchases.

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